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**HOW GERMANY
DOES BUSINESS**

HOW GERMANY DOES BUSINESS

*CHAPTERS ON EXPORT
AND FINANCE METHODS*

BY

DR. PAUL PENSAC GOURVITCH

WITH A PREFACE BY
DR. B. E. SHATSKY



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To Miss Adelaide R. Hasse, Chief of the Economics Division of the New York Public Library, the author wishes to express his appreciation and thanks for the kind supervision of the style of the book.

PREFACE

As I attribute great importance to the question of the most expeditious development of Russia's industrial forces and the establishment of close economic bonds between the United States and Russia, it affords me great pleasure to write the preface to this book.

The author, among other things, deals with and reveals the interesting and up to the present little known activities and methods of Germany in her economic relations with Russia and other foreign countries.

The time has come for Russia to rid herself of German economic influences, which aim at the exploitation of her markets. But at present our Free Fatherland is still far from being what the Greeks called "autarchy." Russia cannot yet be self-supporting, she has need of foreign capital to help her to realize her great economic development.

PREFACE

The economic situation in Russia today closely resembles that of the United States at the end of the Civil War. Conditions were then tragic, the United States' credit was tottering, and there appeared on the horizon a threatening spectre of a heavy National Debt and exhaustion of the States' finances. The outlook seemed desperate and, to many, her economic basis apparently hopelessly shaken. Yet, within a few years the United States entered an era of prosperity; her population had increased, and a period of economic success had dawned.

At this critical time in her history, foreign capital flowed into the country to assist her in the work of reconstruction.

Free Russia,—doubly free—free from the oppression of autocracy, free from the control of Germany's despotic economic guardianship,—now faces the same problems as did the United States.

American capital, united with Russian Democracy, will be called upon to furnish the constructive forces of New Russia.

For American capital the field of activity is

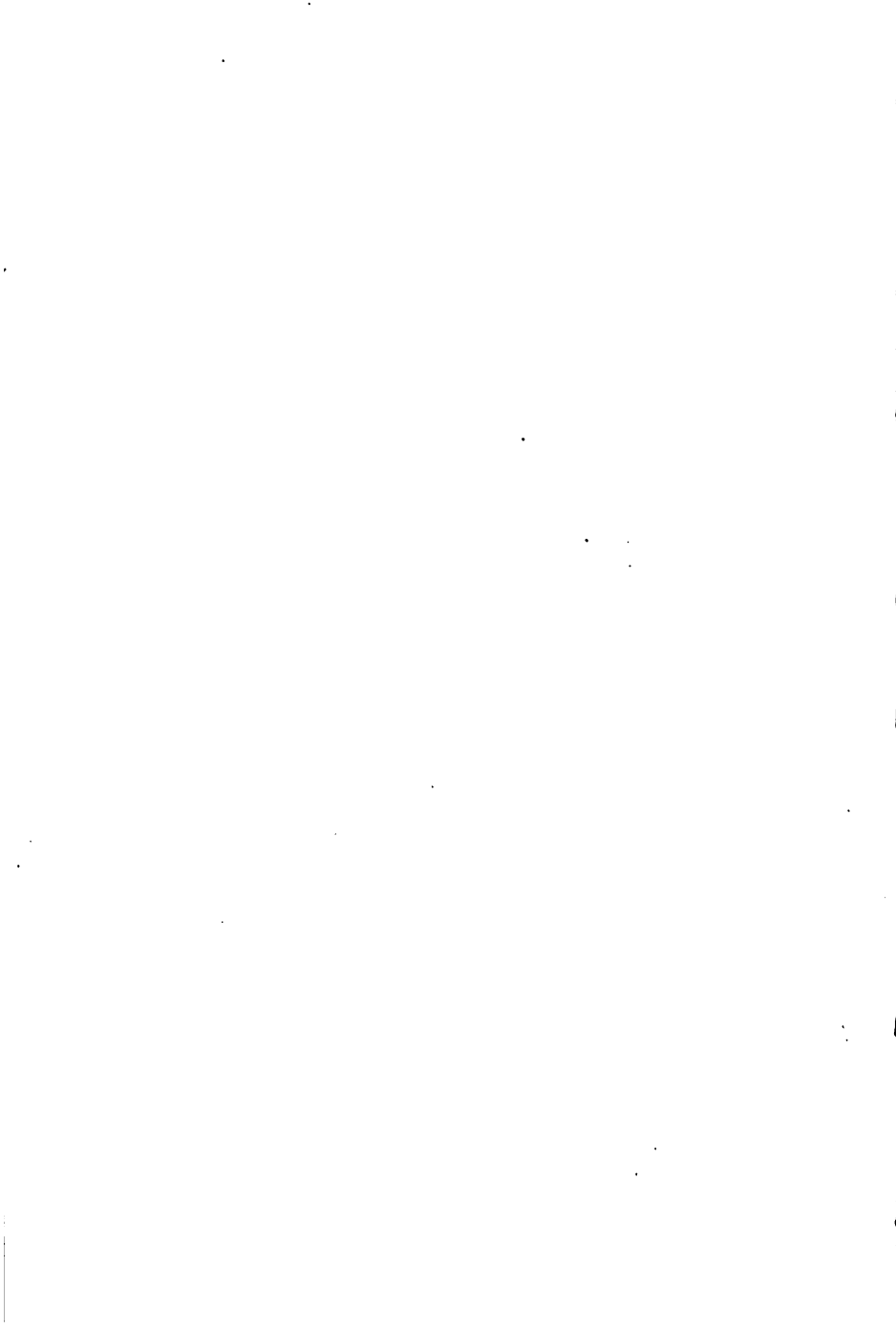
PREFACE

practically unlimited: development of Russia's mineral deposits; building of her railroads; bettering the methods of her industries (iron, coal, timber, naphtha, etc.); efficient handling of her agricultural products and raw materials; raising the standards of her technique and numerous other undertakings.

The experience and wisdom, acquired by the United States in so successfully solving the economic problems following the Civil War, will enable her materially to aid and assist Russia in her similar difficulties.

Good fortune that predestined the United States to be Russia's intimate friend, will lead towards a lasting and mutually beneficial union. Our Free Fatherland, bound now by ties of brotherhood and blood with our Great Ally, will heartily welcome this economic collaboration, which has already started, in spite of war conditions.

DR. B. E. SHATSKY,
(Of Petrograd).



CONTENTS

- I POLITICS AND ECONOMICS 11**
- II BANKING FACILITIES: ADVANTAGES FROM INTERNATIONAL BANKING 14**
- III CREDITS: CREATORS OF DEMAND 18**
- IV CREDITS: SMALL UNITS AND BIG TOTALS 22**
- V IMPORTERS AND EXPORTERS OF CREDITS: ACCEPTANCE BUSINESS 26**
- VI CLEAN CREDITS OPENED BY THE EXPORTER WITHOUT THE IMPORTER'S KNOWLEDGE 37**
- VII GERMANY'S MERCHANT MARINE 46**
- VIII EXPORT ARTICLES 47**
- IX REDUCING THE BUYER'S EFFORT TO THE MINIMUM 51**
- X GERMANY'S ECONOMIC EXPANSION AS A BENEFICIAL FACTOR IN INTERNATIONAL DEVELOPMENT 55**
- XI THE EXPORT OF MEN 58**
- XII IMITATION AND COUNTERFEITING 62**
- XIII LITTLE THINGS OF GREAT IMPORTANCE 69**
- XIV EXPORT PUBLICITY 71**
- XV SAVINGS IN CUSTOMS DUTIES 74**
- XVI EXPORT BY MAIL 76**

CONTENTS

- XVII THE COST OF LABOR 85
- XVIII GERMANS AS IMPORTERS AND RE-EXPORTERS 91
- XIX GERMANS AS FOREIGN INVESTORS 97
- XX THE METHOD OF THE CHAIN 108
- XXI COLLECTING THE VOTING RIGHTS 115
- XXII ELIMINATION OF WASTE: COLLECTING THE
WORLD'S ENERGY 121
- XXIII GERMAN INTERNATIONAL POLICY IN FOREIGN
TRADE 128

HOW GERMANY DOES BUSINESS

I

POLITICS AND ECONOMICS

THE methods employed by Germany in the field of international trade and finance are still little known, though everybody has heard of the wonderful development achieved by that country in a relatively limited period of time. As the author of the famous book "J'Accuse" says, Germany's development went so far as to have her colonies planted in London, Paris, Genoa, etc.

What was the spur which caused her growth and expansion, and what were the means through which they were accomplished?

As the United States is now becoming a leading factor in the field of foreign trade and finance, and has already achieved great results in it, the

12 HOW GERMANY DOES BUSINESS

following analysis of Germany's methods will, perhaps, be instructive. More so because the efficiency of Germany's warfare—one of her many industries, as it has been well said—lies in the application of her business methods to war.

From the very fact of her late entry into the field of foreign trade, both necessity and competition made Germany inventive. Being one of the last, she was forced to devise new arms in order to secure the trade.

In justice to Germany, it must be stated that the general influence of her work was a *Kultur-tragerig* (culture-carrying), since success depended largely, not only on the welfare and development of the country to which she exported, but of all other nations to a certain degree. Germany's chief competitors, such as England and France, profited by her work. By stimulating the accumulation of capital in the less civilized countries, these were made richer and the prospects of world exchange enlarged. Moreover, this work in itself was a work of peace and internationalization because war, national isola-

tion and self-sufficiency were incompatible with the very spirit of her work,—although it is now evident that the Imperial Government regarded its foreign trade expansion from a different point of view. In the plan of international politics, it might be considered that German business received the government's encouragement and was the blind tool of an imperialistic ambition which, up to three years ago, would have seemed unrealizable and little more than a terrible anachronism, just as the German railroad network might have been regarded differently by the business community than by the "Junker" class which backs the Imperial Government.

II

BANKING FACILITIES

ADVANTAGES FROM INTERNATIONAL BANKING

THE Germans were early aware that the function of financing trade is of predominant importance. On the one hand they had before them the experience of English importers of whose trade methods they were quick to take advantage, while on the other hand they found ready the machinery of English banking which they used for commercial credits.

Indeed, to find a way of financing is to have found the *commercial carrier* for the shipments, just as to charter a ship for loading means to the exporter to have found the *material carrier*. As we shall see later, the Germans financed their foreign trade largely through London, but sometimes through Paris and other money markets. Sometimes they financed it through the country to

which they were exporting. In so doing they were relieved of the financial burden of trade, but were under the obligation to allow their transactions to pass through the hands of foreign banks and thus perforce reveal some of the details of their work which they preferred not to disclose. They realized that in many instances an English bank, for example, could not be expected to give them all the necessary information and advice because, leaving aside patriotic considerations, doing so would mean to the bank to encourage German competition at the expense of an old customer engaged in the line investigated and so eventually work harm to itself. In the same measure as the old customer lost trade the bank would weaken its own position in exchanging an old and tried client for a new and untried one.

This problem of information so vitally important in foreign trade,—the more so for Germany since her business was done on a credit basis,—was partly solved by powerful organizations like Schimmelpfeng Information Co., which had branches all over the world.

16 HOW GERMANY DOES BUSINESS

Entrance into the field of international banking possessed other attractions besides. First, it • was a profitable gap to be filled in the world's money-changing machinery, and thus offered profits as a business in itself. It further offered the attractive possibility of dealing in credits, thanks to the machinery of the English open-discount market. Again, banks in far-away countries had a distinct advantage of time and place. Money rates are usually high in countries very distant from the big money markets:—that is the advantage of place. To instance the advantage in time, a draft drawn on a European center from such a distant country is paid only on arrival, some twenty or thirty days later, during which time the buying house can use the money gratuitously.

International branch banking is the highest form of efficient banking from the superiority of its central organization. Germany quickly took advantage of this since she could supply very little capital of her own to the country with which she was doing business, but could find the money

either in the importing country itself or in the large money markets of the world. Her success proves that much still remains to be done in developing this branch of international activities. In the United States the problem of exporting is now, as it will be after the War, primarily and chiefly one of banking facilities. This will appear more clearly when we see that the scope attained by Germany's trade development was due to the fact of having brought to life an elastic financial machinery so as not to be handicapped by inadequate financial instruments.

III

CREDITS

CREATORS OF DEMAND

THE Germans offered credit to their customers primarily because English merchants sold chiefly on a cash basis. But very soon they found out by experience that credit is a *creator of demand* and therefore an incentive to consumption and at the same time a stimulus to production and the saving of capital. In the early stages of their experience and sometimes later, at the height of their activities, the Germans naturally learned some costly lessons as a result of going too far in their credit liberality. This is seen clearly in the case of Japan.

When the Germans entered the Japanese field they offered the Japanese merchants credit inducements which were, as a rule, unknown at that time in that country. Japan's trade had been strictly

on a cash basis until then, i.e., deposit with order, balance against documents on delivery. In 1906, when numerous failures followed the great Japanese boom, Germans suffered heavy losses. Allowing the Japanese excessive credit and extending their indebtedness more and more, the Germans had gone far beyond the real necessity of credits and thus made the buyer overbuy. At that time the Japanese buyer, so far as the middle class was concerned, stood far beneath the European merchant. Germans had overlooked that. Their work accordingly had rather a corruptive influence. By straining the buying capacity of the dealer, the German credit accommodation disorganized the market rather than assisted it. Germans, however, were always able and willing to profit by the lessons of their experience. They abandoned speculation in credit and found a sound economic basis for it.

The purpose of credit is to give the dealer the possibility of paying for the merchandise when at least a part has been sold. Thus the selling capacity of the merchant is made independent of his

20 HOW GERMANY DOES BUSINESS

financial resources. However, where business ethics are undeveloped and the merchant is unacquainted with such arrangements even in his domestic trade, credit facilities may well constitute a danger. In such a country the dealer is inclined to consider goods which he does not pay for as if he had acquired them by his own artfulness. Being unable to realize what a commercial obligation is, he will necessarily try to deceive his creditor.

It is sometimes asserted that Germans allowed credit without discrimination. As a rule, they did not do so; but the discrimination was generally of a different type, based on economic necessity, and, as we shall see later, the Germans ran perhaps less risks than other exporters in the long run.

-Credit to be sound must be self-liquidating. In normal conditions, if less time is allowed than is necessary for the merchant to dispose of the goods, it will mean putting obstacles in the importer's way to his merchandising, and will eventually lead to underestimating his ability and thus limiting

his activity to the actual amount of his cash or his own limited financial arrangements. Allowing too much time to the importer means encouraging him to neglect his obligation and consequently to overbuying and speculation. Sometimes it will even make him actually forget the existence of his debt and make him fall a victim of his own embroilment and exaggeration. The Germans, however, in according their credits took into consideration the conditions of the country. In Russia for instance, which is known as a country of small turnovers and slow liquidations, long credits were of vital necessity, especially in Siberia and other less civilized Russian regions. Just as the magnitude of all our modern commerce was built on and by credit, the trade in the above mentioned regions owes its existence largely to the German credit facilities.

As a rule, German terms were 90 days sight draft or open account for the same time.

IV

CREDITS

SMALL UNITS AND BIG TOTALS

I READ recently in an English economic review the statement that there is much exaggeration relative to the use which Germans are said to make of credit. The author affirmed that English manufacturers were as quick to give credit accommodations as Germans, when the solvency of the customer warranted it. This argument shows how little the spirit of German credit is still appreciated.

The reasoning of a German was a very simple one. He tried always to draw a parallel with his own country, although in the course of his experience he learned that things are somewhat different in other countries. But in the main he knew that human nature is the same the world over. The German easily assimilated new impressions and

knowledge. He gladly and readily went abroad to study the life-conditions and psychology of other nations. The idea that people are all at heart the same was very characteristic of the Germans, and of great assistance and encouragement to them.

The Germans reasoned thus: in a small German town, in every line of trade there is a certain number of small dealers who are good for a credit of say one thousand marks, just as Frau Krupp-Bohlen is good for one million. As there are many such towns in Germany, there are plenty of these good credit risks. Now, if that is true of Germany, it is true of other countries and of all the world. In business as in philosophy, the Germans liked to embrace the whole of the universe.

That was really something new in foreign trade. The English exporter would deal only with first-class, big concerns which were already known as large importers. The idea did not creep into his head that there were other merchants besides these. The Germans thus discovered a *new, — working class of importers*. To give these smaller

24 HOW GERMANY DOES BUSINESS

dealers such facilities as would enable them to buy and to pay, just as the Germans did with their own domestic trade, meant, according to the theory of probabilities, to build up a sure, conservative clientèle of "geographical distribution" as the financier would say. The individual units were good because small and conservative, and because the credit granted them was only such as their character and ability warranted. The number was still better, since the magnitude of the number of units made it possible to depend less on any one of them. To place less dependence on a single unit meant to avoid the risks of shocks and failures. I know of one concern which during eight years' time incurred a loss of less than one-fifth of one per cent. of its total business, which was entirely on credit. It not only put its eggs in many baskets but it found thousands of new baskets in which to put them. It is obvious that they ran less actual danger in their large number of risks than exporters who dealt with only a few and on a large scale. For one of the latter to lose a client was to lose a considerable part of his

trade. A failure of his client meant a heavy loss and sometimes his own bankruptcy.

Now it will perhaps be understood why chance travellers in the small towns of Europe found very high-grade goods, sometimes German and even American, in stock in the small shops. The small provincial merchants could obtain them almost as cheaply as the large department stores through the help of the German credit system and thanks to the German policy of assisting small merchants. Having lower expenses and being satisfied with less profit these small merchants could sell the best goods at the same price at which they were purchasable in the large cities.

V

IMPORTERS AND EXPORTERS OF CREDITS

ACCEPTANCE BUSINESS

THE Germans early availed themselves of English money and banking machinery as well as of the facilities of many other international money markets. If it had not been for the London open discount market it is very doubtful whether German trade could have achieved the magnitude it did. To be able to distribute credits as freely as she did, Germany needed either to be very rich in capital and accumulated wealth and to use credits as a channel of investment, or to find some way to attract other people's money to finance their trade. → As they did not have too much money of their own, they financed their trade largely through the London money market.

The London money market, with its abundant resources swelled by the balances carried there by

foreign and colonial governments, banks and financiers, could absorb any amount of bills. There was practically no limitation to the German's ability to import cheap credits from England and later to re-export them in a dearer form to the foreign customer who bought German manufactures on credit. The only limitation lay in the amount of paper on a single acceptance house which the bill-brokers, and ultimately the bankers, were willing to buy. They fixed, roughly, the maximum amount of acceptances which they judged normal for any one acceptance house. The standing of the drawer was taken into consideration very little.

Several years ago the term "open discount market" would have required some explanation. Now, such a market already exists and thrives in New York, thanks to the Federal Reserve reform, to the accumulation of capital, and to the fact that Dollar Exchange is more and more coming to be a recognized standard of foreign exchange, and ultimately to the stability of American currency which has attracted foreign funds to the United

28 HOW GERMANY DOES BUSINESS

States. There is not yet, and perhaps never will be, in New York, as in London, a special class of concerns known as "acceptance houses" which specialize in acceptance business. As a class, historically they represent former importers who have given up the merchandising portion of their business to devote themselves exclusively to the function of financing imports for a consideration called a commission. With their well-established credit of long standing their bills sell at the lowest discount and any importer who wishes to have his imports financed cheaply makes arrangements with such a house which agrees to accept bills drawn on it. This is called opening a credit with the acceptance house in favor of the importer.

A great many of these acceptance houses in London were of foreign origin, mostly German, since "foreign" in a European country almost always meant German, at least so far as business was concerned. Fritz Diepenhorst (*Revue Économique Internationale*, 1914, I) goes further, asserting that it was Germans who established the basis of foreign exchange business in London when Lon-

don replaced Amsterdam as the world's money market. It is true that all over the world the Germans almost monopolized Foreign Exchange and Arbitrage business, in the capacity of foreign bill brokers or managers of foreign exchange departments in banking and financial institutions. We shall now see how Germany took advantage of the acceptance mechanism.

When the German manufacturer for instance sold goods worth 10,000 marks in Spain, on credit either at, say, three months' sight, or on open account for the same time, besides the draft drawn on his customer in Spain, he drew a draft called a finance bill of say £500 on an acceptance house in London with whom previous arrangements as to time, renewability of the bill, amount of the "revolving credit" granted, the commission of the acceptance house, etc., had been made. The draft accepted in London was sold to the bill broker or to any other short term investor, the proceeds being credited to the German banker's account in his London bank. After three months the manufacturer's customer in Spain had to pay, through one

30 HOW GERMANY DOES BUSINESS

channel or another, the draft sent for collection. He might remit by sight draft in marks or send a post office money order to cover the open account, if that form of credit had been chosen. It was a question of arrangement with the bank through which the draft had been sent for collection, how to collect in the cheapest way this money now available in Spain and carry it to London, where the funds had to be sent in order to meet the draft the London house had accepted. It was a matter of arrangement whether the collecting bank was under orders to send this money to London directly, or whether it bought a cable or demand draft in marks and sent it to the German manufacturer who has previously drawn his draft on the London acceptance house so as to have margin of time in which to receive the money from Spain and send it back to London, or whether with the help of a powerful international banking organization all these operations by which the funds were gotten from Spain to London were reduced to simple entries in the books, diminishing the importer's bank account by the amount of the

draft and increasing by so much the deposit account of the acceptance house. In the absence of any such real clearing machinery in London where the importer, exporter and acceptance house or their bankers kept balances, the clearing was done by banking movements previously mentioned.

In its financial aspect this credit structure from the German exporter's point of view was a *clean credit opened by the exporter in his own favor*.

In the foregoing example we have assumed that the draft was for three months only. In case the exporter granted longer credit, he had to make an arrangement to renew his draft on the acceptance house at the end of each three months in order to allow time for the importer's funds to reach London. If the German exporter drew his first draft of, say X pounds in order to get Y marks, he had to draw his second draft for X plus Z pounds in order to realize on it the equivalent in marks of X amount of pounds which he had sent to London to meet his previous draft. This, of course, assumes that rate of exchange and discount rate to be invariable. Now this Z is just

32 HOW GERMANY DOES BUSINESS

the discount which the London buyer of the draft deducts from the face value for the time it has to run. If the draft were renewed twice, the exporter ultimately would have to receive enough funds from his Spanish customer to be able to buy with them a sight draft on London of X plus 2 Z pounds. When he makes the price to his Spanish customer he bases it on this X plus to 2 Z pounds translated into pesetas, plus the commission he had to pay the acceptance house. As credit in London was very cheap for prime paper, Z was a negligible item. In this example I have also implied that the German manufacturer arranged for his credit directly with the London house. In practice, however, it may have happened that the arrangements were made through a German bank, the German exporter not having the slightest understanding of how the acceptance business worked.

All that he had to know was that the banks were willing to buy his drafts drawn on small importers in distant countries for a small commission, or even to advance money on open accounts with their

foreign customers. Because the bond between the bank and the firm was so intimate a German could go even further in its credit allowance. Sometimes goods were delivered payable with the next order. This means that when an order was given by a client he had to pay for the outstanding amount of the previous order. This was not only a good sales argument, but, at the same time, something of a perpetual contract between the firm and client.

The reasons why the exporters did not always finance by a direct arrangement with an acceptance house in London were (1) because they could thus avoid running the risks of foreign exchange fluctuations, which is more in the domain of the banker than the merchant; (2) because it brought the added advantage of differentiation of functions, the exporter thus being able to devote himself more strictly to his merchandising function, and (3) because a bank could make better terms with a London house on account of its higher credit.

It is to be understood that Germans financed

34 HOW GERMANY DOES BUSINESS

their imports in the same way, and very often even their own domestic trade. Many an industrial society raised money through banks which were known in Germany to carry a controlling interest in industrial corporations. Sometimes the corporations were originally created by banks, as in the case of the Disconto Gesellschaft, which promoted and controlled a number of industrial and other companies. This was made possible by the same finance bills, in this case called "kite-fliers." Not only the funds of London's money market but those of small banks in countries such as Switzerland and Norway were used. Idle funds accumulating there were used in investments in these kite-fliers, indefinitely renewed. A finance bill does not show on its face whether it represents a commercial transaction, a loan operation, or pure speculation.

A certain German bank used to send circulars to Russian concerns offering to finance their imports or exports by accepting drafts, stipulating the amount of the "revolving" credit allowed. In order to take advantage of the difference in Rus-

sian and German money rates the bank even offered to discount their outstanding accounts by the same instrumentality of the acceptance draft which was afterwards bought by Russian banks. By lending its credit in a foreign country to sometimes middle-class business men of good standing, the German bank created additional profits without increasing its visible credit liabilities. But that was possible thanks to the wonderfully organized German information agencies, which guaranteed their reports.

In this intelligent use and appropriation of foreign money in which Germany indulged lavishly in order to bring abundant financial resources to her trade and industry, lies one of the chief factors to which Germany owes her development as an economic power. We can point out an analogy in the recent history of the United States whose prosperity is largely due to the great financial facilities offered to her by foreign buyers, in placing orders on credit often irrevocable, and sometimes even paying in advance. This rendered American industry independent of the lim-

36 HOW GERMANY DOES BUSINESS

ited financial structure of the United States and allowed the latter to develop to the fullest extent of her potential industrial forces. Analogically, Germany's example shows what can be achieved by a country which, though not possessing great financial resources, nor having clients willing to open "irrevocable" credits, yet knows how to turn the international financial machinery to her advantage so as to leave the industrial and commercial forces free from financial limitations. The difference between the experience of Germany and the United States is that Germany had to take the trouble of finding these financial facilities by opening exporters' credits, while in the case of America, these facilities were offered generously by the buyers, i.e., the credits were opened by the importers.

VI

CLEAN CREDITS OPENED BY THE EXPORTER WITHOUT THE IMPORTER'S KNOWLEDGE

THE following typical example will disclose some interesting features of German financing of their foreign trade. The illustration of this method is in a line in which American exporters are interested, that is, in the shoe business.

The house of N. sent its travelling agent to Russia. Before starting out on the road, he had in his possession a list of towns with which the factory regarded it as worth while to do business. This list contained the names of a large number of very small towns, some of which were often unknown to exporters of other countries. It was compiled either by the factory's own research department or by a special agency called "The Shoe Intelligence Agency," which gathered all the data concerning its line in its own country as well as abroad. This agency or study department was,

38 HOW GERMANY DOES BUSINESS

for instance, in touch with the large shoe markets in Russia, such as Warsaw. Its Warsaw correspondents could easily advise them as to the Russian towns in the Warsaw shoe market known for their good taste, for buying fine, expensive styles, etc.

Shoe jobbers being almost unknown in Russian cities, when the travelling agent arrived in a town mentioned on his list, he had but to walk through the principal streets, in order to ascertain which were the most important shoe stores. This inspection would also instruct him somewhat as to the standing of the store-keepers. Experience had long since taught him that appearances reveal very much of the resources, ability and character of the proprietor. A quick glance at the show windows, at the exterior of the store, as well as at the degree of animation within the shop, at the movement of customers, at perhaps the happy disorder of boxes not yet arranged, nor put in their places, all told this sharp-eyed man a detailed and truthful story as to whether the people were busy, prosperous or dull.

CREDITS OPENED BY EXPORTER 39

Thus the travelling agent, after his first round, made a list of the shoe merchants whom he judged it advisable to visit. The following day he went to the biggest commercial bank of the city, submitted his list to an officer of the credit department and explained that these were the concerns with which his factory intended to do business. He then told the bank that they were going to sell on credit by drawing a time draft on the buyers. The factory requested this bank to present the drafts for acceptance and buy them when accepted. The agent was anxious to know which names among those selected were good enough to be discounted by the bank without hesitation, and also to know the maximum amount of every draft. Frequently the travelling agent got in touch with a so-called Credit Committee, and quickly learned all the most reliable information from people who were considered the fathers of the town. After a short conversation he knew many interesting things concerning the town and its business, as such things are usually freely told to foreigners, in hope of helpful advice.

40 HOW GERMANY DOES BUSINESS

Now he had not only his own judgment, which was necessarily based on superficial appearances, but one which was essentially conservative, though he had acquired it in such a simple way. But he had more. He had the money with which to finance the exports, since the bank had agreed to buy drafts drawn on certain merchants. He could even make a contract with the bank to sell it a "future of rubles" and to buy a "future in marks." By this arrangement he protected himself against fluctuations of exchange.

Having solved the financial difficulty of the problem and having sold the "future rubles" at a fixed rate of exchange in marks, he could now quote prices in rubles. He could quote them c.i.f. town of buyer, already knowing the freight, custom duties and other expenses, banker's commission, etc.

With the list of merchants now approved by the banker, he would begin his visits. He would go to the buyers and invite them to examine his set of samples.

At the time when the American style of shoe

became very popular in European markets, Russian dealers were eager to have American shoes in their stores. As the prices for American shoes were very high, because they were sold chiefly through Germany, Russian merchants could not afford to buy them, and satisfied themselves with Russian hand- or machine-made imitations of American styles. By this time the well informed German travelling agent had a new selling argument. He pretended that his shoes were original and genuine, manufactured by an "American" factory in Germany, for the sake of cheapness. As these shoes bore no sign whatsoever, and had not the fatal "Made in Germany" label, the deception could easily be sustained.

Moreover, foreign goods imported into Russia, bear a special mark of their importation. This mark consists of a small bid plumb which is attached to the two ends of a thread pushed through the leather material and which bears the words "Russian Custom House." Thus foreign goods show that they are imported, but do not show where they are imported from. The travel-

42 HOW GERMANY DOES BUSINESS

ling agent was aware of all these little things. The Russian merchant might not always have believed what the travelling agent told him; he knew however, that in his turn he could pass this fake on to the consumer, since there was no proof whatsoever to the contrary. He was of the opinion, with some German philosophers, that truth is only a relative matter and is no more than a judgment that does not bring one to contradictions.

The shoes of an "American Shoe Company," whatever the mark might be, were a great inducement to the buyer. Later on, when the travelling agent quoted his prices, often cheaper than those of domestic manufacturers, promising at the same time quick and accurate deliveries, agreeing to pay all expenses till the arrival of the shoes at the buyer's town, and lastly, offering liberal credits without taking a promissory note, which is the customary credit instrument in Russian domestic trade, the buyer naturally gave an order. The agent explained the use of the acceptance draft and the buyer understood that with this document,

CREDITS OPENED BY EXPORTER 43

instead of promissory notes, the factory showed him confidence and did him a favor.

It may now be understood why Germans booked all the orders they wished. It can be asserted that fully seventy-five per cent. of "American Shoes" sold in Russia were made in Germany; the other twenty-five per cent. were chiefly sold through Germany.

This example is typical, though it is taken in a line where, in spite of high duties, the country, because of peculiar features of the Russian shoe and leather market, to which I shall refer elsewhere, had to depend largely on foreign importations increasing every year. The method used by Germany in the shoe business may be applied to other articles in competition with England, France, America, etc.

When the profit seemed to warrant it, a liberal open account was granted to the buyer. Sometimes it is incomprehensible how Germany could so easily venture to work on open account terms, with a customer in a distant foreign country. There is, however, no essential difference between

44 HOW GERMANY DOES BUSINESS

a sale on a draft, and on an open account. The difference will appear even smaller when it is borne in mind that drafts were often drawn "Without Protest." In this case the repudiation of the draft has the same legal consequences as the refusal to liquidate the open account. A merchant likely to deceive would not be recommended by the bank, and would not receive a favorable report from an information agency. He would eventually betray his intentions in a number of ways when in personal contact with the agent, for instance, buying indiscriminately, without being urged by the salesman, as is the case when goods are bought without the intention of paying for them. If among the number of the customers, there would be some dishonorable merchants on whom both the information bureau and the bank had given favorable reports, they could just as well repudiate the draft when presented for acceptance. On the other hand, if unfortunate circumstances forced a customer to dishonor his open account debts at maturity, the same might have happened to his accepted draft.

But what was this very clever arrangement, in its financial aspect? It was a kind of *unconfirmed clean credit opened by the exporter, without even the knowledge of the importer*.

It was *clean* because no document secured the draft, nor collateral of any kind. It was *unconfirmed* because no written document of the advice and willingness of the bank to discount drafts drawn on the importer existed. I say it was a kind of such credit, because usually such credits are opened by the importer and not by the exporter. In the last point lies the inventive genius of the combination. It could be said that Germans, having studied the problem with their characteristic thoroughness, taking into consideration the smallest details, as well as the conditions of time and place, have willingly assumed all the bothersome functions of the merchant, surrounding him with a net of facilities and inducements, and leaving open to him only one course, a course he could not help but step into, in other words to give an order.

VII

GERMANY'S MERCHANT MARINE

GERMANY early understood that to own a powerful merchant marine is a condition *sine qua non* for a country which aspires to become a prominent factor in international trade. It is a fact to which she gave too much publicity for it not to be known. It is not necessary to expatiate here upon this subject. However, in order to give a clear idea of her progress as a sea-power, these brief statistics will be sufficient:

From 1886 to 1908, her commercial tonnage rose from 298,000 tons to 1,982,000, almost seven times its former capacity.

Clearings of German vessels at German ports only and bound for foreign ports rose from 7,900,000 tons in 1883 to 66,000,000 tons in 1906, more than eight times their quantity.

VIII

EXPORT ARTICLES

THE Germans did not stop at their expansion of international branch banking, credit facilities, at their discovery of a new class of importer, nor at the building of their own merchant marine. They went further. *They discovered new articles for sale.*

The most characteristic feature of their export trade was a huge mass of articles of export, such as were often absolutely unknown in Germany and manufactured for the sole use of the foreign countries or regions of a country, in accordance with their national needs, studied in advance.

When the English salesman came back from a business trip with his melancholy assertion that there was nothing to do with a certain country for his manufacturer's goods, the Germans worded the same impression otherwise. They said:

48 HOW GERMANY DOES BUSINESS

"The country needs such and such things. Can we offer them?" While the Englishman looked to see if there was anything doing in his line of business, the German looked to see what line of business there was in which he *could* do something. He was willing to adapt samples and to undertake the manufacture of articles for which he himself had no use in his own country. It was a difference of point of view of great consequence to the exporter. *The German discounted the possibilities and opportunities*, the Englishman, on the contrary, was more on the side of conservatism and statics.

An authentic story is reported by Prof. Henri Hauser of the University of Dijon. In his town mustard trays, representing pigheads in Prussian casks were on sale. German diplomacy, becoming aware of this lèse-Prussian fact, made a protest. The ensuing investigation showed that the trays came from Germany. A French dealer, bothered by the incessant visits of a German traveller, to get rid of him, gave this order which was accurately executed.

The German went to a country with the confident idea of doing business, some business, and since there is business in every country, he was sure of success, because he was willing to satisfy the buyer as to conditions and terms. What he had to do was to find out what goods in his line were needed and for which there was already a demand, or for which a demand could easily be created. Whenever such goods could not be manufactured by himself he was ready to buy them in any other country in order to make sales as a broker. The English exporter sent his samples, very often unwillingly, in an inadequate, haphazard form, and was deeply dissatisfied when people abroad failed to recognize the usefulness of such goods. It seems so simple, the idea that where there are merchants there is a demand for goods, and that the whole trouble is reduced to the question whether the exporter *is willing and able to provide the people with the goods wanted, and under the conditions acceptable to them.* However, this idea was overlooked by many a man who tried to establish foreign connections. How

50 HOW GERMANY DOES BUSINESS

many found it ridiculous to build plants for manufacturing goods for which there is no domestic market! A French textile manufacturer, for instance, refused an order because the customer wished to have a special shade of dye, being afraid that he could not dispose of his goods in France, should some complications force him to take the goods back. Only the Germans considered a foreign market as an individual body, which must not be subordinated to considerations and ideas of a different body, their domestic interior market.

IX

REDUCING THE BUYER'S EFFORT TO THE MINIMUM

It will always be true that in our transactions with other people, in order to get the most profit for ourselves, we must think more of the other and less of ourselves. That was Germany's psychological policy, and it will be found in the smallest details and technicalities of her work in international trade and finance. It was in Germany's readiness to satisfy any reasonable demand of the customer. It was in the adequate packing, in prompt, accurate deliveries and shipping; in punctilious performance. It was also in the scrupulous observation of their promises; in the standardized methods, in their general business honesty, in the interest they took in their customers; in their advising and enlightening them, etc. It was, before all, in the courtesy of not only re-

52 HOW GERMANY DOES BUSINESS

fraining from sending to a country a man unfamiliar with its language, or of sending one speaking the language but without business education, at least concerning his line, as did other people; but of avoiding as well corresponding in any other language than the buyer's. It was, however, mostly and chiefly in the custom of quoting prices c.i.f. town of buyer, and in his money, thus giving him an exact idea as to the total cost, an advantage which other importers overlooked. Many instances are known in which Germans took c.i.f. orders at higher prices when other offers were rejected, because of f.o.b. quotations of the competitor. The Germans felt obliged to give these accommodating quotations, because they could not expect the customer to have a sufficient knowledge of freights, insurance, custom tariffs, and foreign exchange. It cost them less to solve these questions, and they could charge less for this service, because it was duplicated for a given country in a given line of goods. Besides, *reducing the effort* of the buyer to the minimum, leaving to him his only natural func-

tion—selling—and taking up all others, such as the custom broker's, the commission merchant's, who previously bought for cash and resold on credit to the merchants, they made the dealer more or less independent in his function of merchandising and opened his way to success. So they abolished the wall between foreign and domestic trade. If differences between foreign and domestic trade existed, they were very often to the advantage of the German exporter, who, as a rule, used high business and moral standards, which the Germans early found to be a well-paying advertisement. Thus, the Germans not only made clients out of small dealers in a little town in a distant country, which had never before even dreamt of importing goods for their stores, but *they made friends*. They taught them business and banking and developed the country. That is why I was not surprised to find in certain business classes in Spain a rather deep sympathy with Germany. They repeatedly expressed their astonishment at the inconsistency of Germany's military actions and morals, and regretted that such intelligent people

54 HOW GERMANY DOES BUSINESS

could be so easily made the victim of dynastic ambition and domineering madness.

In contrast with these German methods of trade, I remember a Rostoff, Russia, buyer who came to Paris trying to establish direct connection with France, for the sake of buying French goods and of substituting French for German goods. He was introduced to prominent manufacturers, but was unable to conclude an agreement because the French insisted upon cash dealings at the beginning. He was furious and said: "I leave my business, incur expenses, come to Paris and this is what they tell me. . . . Germans send people to us and offer any accommodations we want. The French do not want customers, they are rich." However, he established some connections later on, but curious to say, they were all of foreign origin—Swiss and Alsatian.

X

GERMANY'S ECONOMIC EXPANSION AS A BENEFICIAL FACTOR IN INTERNATIONAL DEVELOPMENT

GERMANS taught business to their customers, showed them how to become importers, introduced highly specialized instruments of banking, and opened the eyes of their customers to a world of things they had not seen before. Germans introduced fixed prices, communicated to their customers some sound principles of buying. They helped them to solve their problems of salesmanship, taught them publicity methods, and sound merchandising. Germans themselves made the most intelligent use of the "card index system," the travelling salesman like the office manager, and they introduced it to their buyers. All this was not for charity's sake, but because they soon understood that their prosperity had

56 HOW GERMANY DOES BUSINESS

only one basis, namely, the prosperity of their buyers.

To be sure, behind all these facilities so generously offered, were a number of problems, cares and troubles, which, however, they kept to themselves. Arrangements with banks, study of custom duties, freight and insurance rates, international law, etc., were the problems they had to study and to solve. Sometimes they kept their own custom brokers in a distant port or land frontier. The duty of these custom brokers was to clear and pay the duties, to forward the merchandise to the customer, pay the inland freight, etc. There were very often manufacturing troubles, since they did not sell standard articles only. The cheapness for which German goods are famous lay in the fact that the Germans, like the Americans, indulged more and more in manufacturing on a big scale, although they did not go as far as the Americans, among whom it is common to refuse an order which slightly departs from the standard. The Germans combined the old method of manufacturing with the new.

They often consented to make some changes in the fabrics, according to the desire of the customer. Sometimes they could foresee these possible changes, and so stabilize them along standardized lines; for instance, a shoe manufacturer would consent to change the heel in a certain sample, but not the toe. They could easily standardize these probable changes, all the more easily because they knew all about the tastes and needs of the country.

The very composition of the travelling salesman's set of samples was interesting. It was so distributed, that one sample had one color and style, the other another color and different features of fashion, etc., and so in a small number of samples, a big combination of styles and colors was offered. In cases where a change was requested, such as was not foreseen by the standard changes, the order was taken conditionally, subject to the rejection of the manufacturer.

XI

THE EXPORT OF MEN

IN the early history of English export the export of capital went hand in hand with the export of goods and men, as we see in the example of railroad building by English capital and English labor. Though conditions have changed a great deal since, it often proves profitable when exporting capital to recur to the old system of exporting men with it.

It is asserted that the *Deutsche Export Review* in a confidential supplement propagated the idea of exporting men as the most efficient method of exporting. Some people see in it an indication of Germany's military preparedness; however, it is possible that it was a simple business expedient. The usual modern form of export of men, is the establishment of branch offices.

Branch offices are frequently an efficient ad-

junct of foreign trade, because they strengthen the position of the exporter and make him fear competition less. In one case, when an English exporter did business for a long time with a certain foreign client, without even visiting the market, he suddenly lost his trade. When he investigated, he learned that a German competing concern had opened a branch.

A branch offers advantages of time and place. As it is in immediate touch with the customer, it can more efficiently deal with him and control his credit standing. In other cases, it offers the advantage of general stock, and especially of parts for replacement. This is why a branch can be used as a strong selling point in itself, when previously the merchant had to wait for a small part to be replaced from abroad. When such a branch is opened, it offers the advantage of immediate distribution. But soon it automatically pushes aside other foreign suppliers, because the merchant in order to secure separate parts has to buy his machines, typewriters, from the branch, and continue to deal with it.

60 HOW GERMANY DOES BUSINESS

It is curious to note that a firm in Germany manufactured types for all makes of typewriters, and it had a real monopoly for this in the whole world. When an Underwood machine had to have a Latin type changed into Russian, for instance, the type could be bought much more cheaply, easily and more quickly from this German concern, than from the Underwood Typewriter Co. itself. German brokers in typewriters had the monopoly for the type, thanks to this German concern. They could thus more quickly and more easily substitute one type for another, and thus offer greater advantages to the public. Later they used this influence to introduce their own makes, the Adler machine, etc.

Besides maintaining branches, Germany developed a network of agents, frequently of German origin. The agency system varies according to places and purposes. Usually the agent started as a solicitor and worked on a commission basis. In order to protect themselves from a loss, the manufacturers and exporters used the *Del Credere* system by which the agent bore a responsi-

bility of say twenty-five per cent. of the amount of the order in case of failure of the client. This made him careful in accepting orders. An order sent by such an agent was not accepted however, until a credit information bureau gave a favorable report on the house.

The agent could eventually become a consignee exhibitor to whom, when it proved necessary, for reasons of stock advantages, custom duties, etc., consignments were sent. Sometimes he was at a terminal point where large consignments were sent, and had charge of distributing them to customers in various towns. It would be interesting to follow the prudence and sagacity which Germans used in order gradually to build up an efficient network of agencies. In the chapter on "Export by Mail" we shall encounter an interesting agency device successfully practiced by the Germans.

XII

IMITATION AND COUNTERFEITING

IMITATING and counterfeiting may be called real German specialties, not because the Germans are the only people who have imitated and counterfeited the inventions of other countries, but because the Germans have won the particular distinction of going about imitating and counterfeiting with a degree of system and method never before practiced. Germany elaborated a system of special agents to foreign countries to report, among other duties, on any novelty that was put on the market. With a further eye to thoroughness, Germans were sent abroad to establish themselves as workmen in factories where valuable trade secrets could be learned. That is why Germans were very often found working for a nominal salary in foreign concerns. At home, the Germans founded bureaus for collecting

everything available in print from all the more conspicuous and promising manufacturing concerns throughout the world. They classified their competitors' advertising matter—catalogues, circular letters and what not. From the data thus assembled they freely borrowed the accumulated results of world-wide ingenuity and experimentation, and promptly turned to their own advantage the successes of their neighbors.

The Germans were the first to introduce foreign novelties into foreign countries which for various reasons could not imitate and manufacture these novelties for themselves. Many fashions and novelties originating in America, England, or France, were carried by the Germans into distant countries. It was Germany that popularized in Europe many American devices such as safety razors, office furniture and appliances, and machinery. When they found a good market for such foreign novelties, they at once set to work to manufacture the wares themselves.

German firms were eager to represent foreign houses in foreign countries, and it is safe to say

64 HOW GERMANY DOES BUSINESS

that a great portion of the world's intermediate trade was carried on by them.

In such countries as Russia, for instance, America has only lately begun to establish her own agencies, having formerly carried on her trade through the mediation of Germans in Russia, or even through German agencies domiciled in Germany. This state of affairs was not peculiar to America, however, for to some extent England and even France acted through Germany in their commerce with Russia.

The reason for this is not far to seek. The Germans were always on the alert to offer their services to foreign firms even before these firms thought of adventuring in business in foreign fields. Usually the Germans contracted for a representation with a given minimum yearly turn-over of business, and offered, besides, other easy and attractive conditions with the result that exclusive representation was quickly granted them. Sometimes this representation was over an enormous territory, including several countries. For the Germans knew well the weak

points of their foreign manufacturing competitors: a fear of assuming risks in foreign markets because of provincial commercial experience. The Germans offered assurance against such timidity, and so obtained for themselves the trade rights that they coveted.

Moreover, foreign branches in certain countries were often organized by Germans. One of the largest American factories with a network of branches all over the world, including Russia, had very serious trouble with the Russian government a few years ago, resulting in Russia closing a number of these branches because they were reported as spy agencies. The truth was that there were hardly ten American members altogether in these branches, the principal managers being Germans.

As for the capacity of the Germans for imitation in the broad sense of the word, this is known to everybody. However, I am reminded of a typical instance that is instructive as well as illustrative.

In France, an organization for promoting for-

66 HOW GERMANY DOES BUSINESS

eign trade with which I was connected, (the Museum of Foreign Samples Exhibition it might be called), received an ingeniously constructed slot-machine for the distribution of sweets. Strongly in its favor, too, was its extreme cheapness, the machines selling for something like a dollar each. They were intended for use in cafés, saloons, moving-picture theatres, barber-shops, and other much frequented places. With the machines we received a detailed account of probable expenses and income, and instructions intended to cover the smallest details and to forestall all possible contingencies. The probable average receipts of one machine was based on statistics taken from German towns where the device had been used. As there was a small space on the apparatus adjacent to the looking-glass, the renting of this space for advertising was reckoned as part of its revenue-producing properties. The wholesale price of the confections sold by the machine was given, with the stipulation that if the sweets cost more in France, they might be had at the quoted price direct from the company in Germany. The

net profit calculated was about 300% per year. A detailed plan of a company to be incorporated under the French corporation laws was also given and the factory agreed to accept part payment in stock. With an eye to local customs, it was stated that as the slot-machine habit was already common in France, (all kinds of gambling apparatus of the automatic roulette type being popular), the slot-machine in question should find a peculiarly appropriate soil. They argued for instance, "A young gentleman, when in a café with a lady, would be reluctant to buy her a two-cent piece of chocolate, but he would not hesitate to give her the money to let her experiment with the machine."

Such are some of the details showing that the seller had studied the prospective class and psychology of the consumer, a study current in every intelligent sales organization. But there was, however, one point about this slot-machine scheme that was very "German"; the apparatus was an exact copy, reduced in size, of a French postal letter box, painted in the national

68 HOW GERMANY DOES BUSINESS

blue with the inscription, "Not a letter, but a sweet." It is needless to say that the contrivance did not bear its original German name but was called "Distributeur Français," the Germans knowing well the moral opposition in France against German products. It must not be concluded, however, that in all of their foreign trade the Germans hide their nationality. In Spain, for instance, the industries, public services, banks, etc., are largely under German control. "Made in Germany" was a real recommendation there. Under such circumstances, and in accordance with their elastic political policy, Germans sold both their own products and their imitation of others', ostentatiously under the imperial eagle.

XIII

LITTLE THINGS OF GREAT IMPORTANCE

THE German exporter always printed catalogues in the language of the country to which he sent them, or in several languages. There are still many people who do not understand that it is a waste of time to address a foreigner in any language other than his own, for, even though he understand it, he comprehends with difficulty, and the message is not as clear to him as when written in his native language. Moreover, a catalogue in two different languages was not a mere copy from one language into another. It was a real adaptation, not only in style but in substance, and in the very selection of goods presented. The adaptation was made according to the needs of the foreign buyer. Thoroughness was disclosed in this feature as in other work.

To show how far they carried their analytical

70 HOW GERMANY DOES BUSINESS

wisdom, it suffices to mention that their printing in Russian was in clumsy, big letters, easy to read. That was because Germans know that the literacy of many Russian dealers does not go beyond signing their name. Their catalogues in French were typographically correct and on good paper. Fine things could be appreciated by the French and not as a rule by the Russians. Another point was that they did not give to their patented specialties strange, almost unpronounceable names, so often found in foreign catalogues. On the contrary the names were, vivid, suggestive of the article, sometimes with a touch of patriotic appeal.

XIV

EXPORT PUBLICITY

THE Germans used publicity well and lavishly, and a great deal of their success was perhaps due to the adaptation of American ideas of publicity in the foreign trade field. It is true that they were not always adaptations, since the advertisements and stereotype cuts were sometimes simply copies from American magazines and newspapers. I cannot speak here of all the details of this function of advertising so rich in its application to foreign trade, but shall merely mention a few points.

One point is their use of posters, which was typical of German publicity methods, particularly in Russia and Spain. I knew of a German drug manufacturer who, when selling his merchandise in Russia, offered with it window-display letters in Russian. This proved to be very

72 HOW GERMANY DOES BUSINESS

profitable to him, not only so far as publicity was concerned, but because the Russians liked this form of decoration and the idea appealed to them.

It will perhaps be interesting to mention that seventy-five per cent., if not more, of all the posters used by candy, soap, and chemical factories in Russia were made in Germany. Two or three of the German poster manufacturers had travelling representatives in Russia in touch with business; when a new factory was about to open, they were on hand to solicit orders. I know of one case where an order was given to a German because he agreed to accept payment in stock of the new concern. These representatives were professional designers and artists. Although Germans copied largely American publicity devices, they never copied the style. A German house advertising in different countries changed its selling arguments according to the varying conditions of time and place.

This observation should be of interest to the American advertiser who evidently does not real-

ize that his American style of advertising, his genius of confidence, optimism and exaggeration does not always fit the modest and somewhat skeptical old world. I know of a big American advertising concern whose advertisements in English, French, Italian and Russian were merely translations from one language into the other. The Germans never committed such errors.

XV

SAVINGS IN CUSTOMS DUTIES

HAVING their research department studying the tariff duties, they were often able to harvest the fruit of their studies by effecting large savings when quoting prices c.i.f. town of buyer, which entailed paying the customs duties. A manufacturer of chemical specialties, in order to elude the prohibitive duties on his goods, used to send his chemicals in separate carboys as alleged polish powder which thus passes at a lower tariff. He sent labels and bottles separately, also, which naturally passed at a lower tariff. The bottling and labeling was done either by a representative in the importing country or sometimes by the buyer himself. By these devices he saved seventy-five per cent. of the customs duties, a very important item in the cost. In another case, the wood and metal parts of toys were sent

to Russia separately. The duty was generally calculated on the higher component and, as there was little metal and much wood, the metal bearing the higher tariff, the German exporter would send the wooden parts in one box and the metal pieces in another. When they arrived the parts had but to be assembled. In some other instances Germans sent semi-complete articles because when sent finished they had to pay a much higher customs duty.

Certainly they did not begin doing all these things at the outset of their work. Experience and keen *competition between them* were their teachers. It is noteworthy that, although they were not the only shrewd sellers in the field, they were perhaps the only ones to show a constant, eager desire to get all the obtainable material for studying the manifold intricacies of foreign trade. They listened eagerly to the suggestions customers made to their travellers, and as is always true of teachers, they learned much from their customers while teaching them.

XVI

EXPORT BY MAIL

AN example will illustrate the method which proved successful in German export business by mail. A German lace factory in Switzerland organized a mail order business with Russia along the following lines:

Russia was divided into a certain number of districts and for each district a general agent was appointed, who in his turn appointed sub-agents. Samples of laces and photographs of dresses and other goods manufactured by the factory were sent in quantities, according to the requirements of the general agent for his own work and for distribution among the sub-agents.

Prices were quoted c.i.f. town of buyer; twenty per cent. commission was allowed to the agents on every order. The twenty per cent. commission was apportioned by allowing fifteen

per cent. to the sub-agent and five per cent. to the general agent. The amount of the commission could be taken by a sub-agent as a deposit. In case the order came from the general agent the entire twenty per cent. was allowed to him. The general agent received a bonus of from one to two per cent. according to his activity, merits and turn-over. Orders were accepted in amounts from twenty rubles (normally \$10) up, and in the case of smaller orders, the sub-agent could combine them so as to attain the minimum. When the agent's commission was taken as a deposit, the order sent to the factory was marked "full deposit taken," and the customer received the parcel at his home by post, c.o.d. The parcels were sent to a Russian frontier town by parcel post, consigned to a branch of the factory. This branch cleared the customs duties and forwarded the parcels by Russian mail, c.o.d. Thus the money, when the parcel was accepted, was remitted to the branch at the Russian frontier. It may be surmised that many obstacles and difficulties had to be overcome to

78 HOW GERMANY DOES BUSINESS

execute this business, because Russia, though having international mail parcel post had no arrangements for c.o.d. international parcels. It will not be without interest here to recall the deliberations of one of the allied economic conferences in Paris, at which it was proposed that Russia establish custom house branches in France, Marseilles and other towns. Eventually such branches will be established in the United States. To one of these conferences I sent a memorandum in regard to the necessity of establishing international c.o.d. mail relations with Russia.

I made a curious discovery during the life of the lace factory. The parcel sent by mail directly to the Russian town (without c.o.d.) proved to be more expensive than when sent by post first to the Russian frontier town and from there by parcel post to the Russian buyer's town.

The advantages of the business organization were numerous: the goods were actually offered to the buyer cheaper than in Russian stores; deliveries were quicker and more certain and the

choice wider. As to the factory, it was fully protected from credit risks, since the business was done on a strictly cash basis. If the client refused to accept his parcel, the agent and sub-agent were both responsible for the expense of sending and returning the parcel. Then, the agent was quickly notified, and, in order to avoid loss he usually managed to dispose of the goods somehow. In case he did not, the factory charged his account, which consisted of so much of his commission as had not been taken in advance as deposits. If the number of such returned parcels exhausted the agent's commission account and the factory's protection, the agent was threatened with the loss of his agency upon the next return of a parcel. That happened rarely, however, because the agent in turn exerted pressure upon the sub-agent, who also risked his outstanding commission. That was why the factory, agent and sub-agent were all interested in taking the twenty per cent. in advance whenever it was possible, because it diminished by so much the chances of the client's

80 HOW GERMANY DOES BUSINESS

repudiation of the parcel. But when the client did repudiate such a parcel, the sub-agent usually paid for it.

The commission accounts were balanced every six months. In order to avoid sending money parcels equalling the balance due to the agent on the date of liquidation were sent free to him. He forwarded them by c.o.d. parcel post to the client and retained the proceeds. His expenses on the c.o.d. shipments were naturally taken into consideration. He then liquidated the commission account of his sub-agents.

In a very few cases these mail order export factories used newspaper publicity; they invited inquiries for information as well as for samples. Their purpose was rather to back up the work of the agent whose address was invariably given in the advertisement. As the prices direct to the customer were the same as those quoted by agents, it was in the clients' interest to order through the agent. It was anticipated by the factory that eventually selling by advertisement would become a more and more important factor.

It is true that the success of this firm depended principally on the nature of its goods. In fact, lace goods are of light weight and of easy transportation. In a parcel of maximum weight accepted by the post, a hundred dollars' worth of merchandise could be sent and thus the percentage of the mail expenses, in relation to the value of the merchandise, was negligible. On the other hand the advantages to this factory were in offering an article which was not manufactured in the country and, as far as concerned the customs duties, the buyer had to pay for them anyhow, whether buying in a store or by mail.

Just because Russia was the country where the bulk of all finished articles was of foreign origin the field of mail order business would seem to have been very attractive; but with the lack of business facilities as well as of business education, mail order business was resorted to by people in search of easy profits. This field was literally covered by swindlers of every kind. Holland offered lotteries by mail, France offered

82 HOW GERMANY DOES BUSINESS

all kinds of beautifiers, life elixirs and especially patent medicines, for sexual diseases, etc. German swindlers even went so far as to offer millionaire brides for a couple of rubles.

One German cosmetic factory, with a branch in Russia, replied to each inquiry by letter enclosing detailed circulars. The inquirer was further informed that, owing to the scarcity of the chemical products entering into the manufacture of this particular kind of cosmetic, and that, in order not to deprive the inquirer of the opportunity of having it, a c.o.d. mail parcel would be sent him by the Russian branch, after say, five days. A certain number of days would be allowed to elapse in order to give the client time to write that he would not accept the parcel. If such a letter was not received at a duly calculated time the parcel was actually sent. As that was an invariable policy for many years, it may be assumed that this method of forced selling was successful. In the end its success lay in the fact that the clients were beauty seeking women, a class of buyers of weak will and easily persuaded.

Indeed, it was difficult to repudiate an elixir sent home and which for only a few kopecks promised to give beauty, youth and happiness.

A little consideration of the future of mail order business in Russia will not be out of place. Russia finds herself in the same geographical condition which assures the success of the mail order business in the United States. The large and distant town peripheries and the sparseness of these towns were the necessary commercial conditions which brought to life the mail order business in the United States. The development of the literacy of the Russian people together with the newspaper business put on a commercial basis, as already seen in the kopeck (one-half cent) papers which have existed in Russia for the last ten years and which have every chance of developing, will be the moral stimulant of mail order business. As Russia is now the country of the world's future production of pulp, paper will be cheap there, thus all the necessary material conditions for the successful development of publicity, advertising and mail order

84 HOW GERMANY DOES BUSINESS

business are in existence in Russia. As so much remains to be done and done quickly in Russia in the direction of common and technical education, we may witness there a great development in a new type of home correspondence school where the methods of a purely American mail order business will eventually be fertilized by adapting moving pictures and talking machine devices. However, this is rather a hope than a prophecy.

XVII

THE COST OF LABOR

THE cost of German labor, contrary to the popular belief, was at least as high as in France and only a little lower than in England. It was higher than in all other countries of Europe. This did not, however, prevent Germany from conducting business with countries where labor was incomparably cheaper,—Italy, Austria, Russia, Spain, etc.

The item of labor will enter, to the operative cost of a product in a different proportion according to the kind of goods produced. The finer the fabric, the more the item of labor will tend to be a negligible quantity. In hand-industry it will naturally play a greater rôle. It could, however, be counterbalanced there by the inefficiency of cheap labor and long hours, as has been absolutely established. If the item of labor can certainly not

86 HOW GERMANY DOES BUSINESS

be neglected altogether, it must not be forgotten that the rôle of devices, patents, successful experience, efficient methods of manufacturing, and methods of industrial engineering, novelties, efficient merchandising enterprise, ability, good will, large scale manufacturing, standardization and other factors are just as important. If you will add to these the factors of banking and credit accommodation, information as to shipping facilities and other general factors, as, for instance, convenient locations for getting the necessary raw materials, labor and tools, governmental protection, you will have a more or less complete set of factors which will balance the factors of labor. I say more or less because there is still a series of factors, as for instance, the hypnotical influence in all countries of the word "Imported," thanks to which, an article, not at all better than a domestic one but only a little different, produced in a country supposed to be authoritative in a given line, will be sold sometimes at double price. This moral factor may be neglected by an economist, it cannot, however, be neglected by a busi-

ness man who operates with values smaller than those of the economist, with more limited periods of time and space—strictly empirical phenomena.

In the case where expensive labor is an important factor three things will happen, viz.: export will tend to decrease, provided the importing country is able to get the raw material as well as the technical and organization equipment as cheaply as the exporting one; the exporting country will export, instead of merchandise, factories themselves; or some new devices will be found and adopted, as labor-saving machinery and such changes in the very fabric as will allow the factory to excel competitors. Very often the solution will be found in the production of finer and higher grades where expensive labor only is necessary.

So it may be seen that the high cost of labor is an incidental factor in the operative cost of goods. Where necessity will force export, an adjustment of factors will possibly be made by which new export articles will be created and in which the cost of labor is not an important item.

88 HOW GERMANY DOES BUSINESS

A few examples will illustrate the foregoing considerations. Shoes in Russia, (I speak of the ante-bellum time) have a peculiar aspect. As labor is cheap, handmade shoes are, as a rule, cheaper than manufactured shoes. Shoe manufacture, being in its infancy, is conducted on an inefficient basis. There are practically no kid tanneries in Russia and very little of box-calf leather is produced. Although Russia sells large quantities of hides, she depends largely for leather on importations from abroad. The high duties on shoes, about thirty per cent., did very little for the development of shoe manufacturing. In spite of high duties, cheap labor, abundance of raw material, German shoe factories not only competed with factories in Russia but competed also with handmade shoe factories while Russian shoe factories could not compete with handmade shoes in Poland.

Platinum is found in Russia almost exclusively. All of this platinum is exported and partly brought back by Russian jewellers in the form of wrought jewelry. That is the more as-

tonishing because the industry of platinum jewelry requires practically only hand-tools, (the few American machinery devices for platinum jewelry are absolutely unknown in the European markets). In spite of the fact that the jewelry is worked by hand no platinum jewelry is made in Russian shops except some of very simple design.

Hundreds of other examples could be given as far as Russia is concerned. The most flagrant paradox will be found in the case of the Russian fur market. Germany buys almost all Russian raw furs directly from the peasants or at Russian fairs. The Russian furriers go to Leipzig where they re-purchase the furs dyed and worked, thus paying not only the import duties in Russia but also the import duties in Germany, the profit of the manufacturer and additional expenses of cross traffic and brokerage. As appears from these examples, it is much more difficult to import foreign manufacturing efficiency, trade secrets and organization than to import ready-made fabrics in which these items are united. As seen in the

90 HOW GERMANY DOES BUSINESS

whole history of peoples, it is not cheap labor which will attract manufacture and enterprise but rather industrial organization that will cause the immigration of cheap labor. It may be generalized by saying that cheap values are more easily importable than dear ones. Labor being an export article as any other, countries such as Italy, Austria and Russia will export men rather than import organization—capital. It is easier to induce working men to change their abode than to transplant manufacturers and organizers to whom a great reward or inducement has to be made. Besides, until now, the overproduction of workingmen has been far in excess of the overproduction of industrial promotion and organization.

XVIII

GERMANS AS IMPORTERS AND RE-EXPORTERS

WE have already mentioned the rôle the Germans played as intermediaries in national trade. It is easily understood why Germans were very well situated to do their buying on the best terms. As they had to study the conditions of foreign countries when selling goods to them, naturally they took advantage of their knowledge of conditions in buying goods. In fact, they largely bought not only for their own need but for manufacturing and re-exporting. Buying with them became an art, for they knew the weak spot of every nation as well as the best seasons in every region for buying.

It is known that German beer was made chiefly with barley of the Russian-Polish region where Germany kept special purchasing agents. Elevators for grains exist in Russia, but gradings are

92 HOW GERMANY DOES BUSINESS

unknown. A great deal of the Russian grain trade passed through Germany not only because of the German differential freight tariffs, but principally because the German supplied the standardization and grading methods which Russia lacked. Grain, wood, hides, starch, etc., are sold by Russia in bulk in the haphazard way. Quantity is the only specification in that country. The Germans were the only ones who were able to buy under conditions where standards were absent; they afterwards classified the materials according to established standards and sold them to other nations.

Repeated attempts, known to me personally, by the French and English to buy direct, resulted in dissatisfaction to the buyer as well as to the seller. In fact, the importer rarely received even approximately the kind or quality of goods he ordered. In some instances he would receive materials of a quality for which he had no use whatsoever. On the other hand the Russian exporter had infinite trouble with his French and English buyers and could not understand the

reason for their dissatisfaction and claims. Both of them preferred to deal with Germany. The Germans, aware of the weakness in the methods of the Russian exporters, did not hesitate to take advantage of it. Their efforts in buying grains, hides, horses, cattle, etc., direct from the peasants went on with the same scientific harshness which they showed in other transactions.

A few years ago, in order to counteract these efforts, a law was proposed in the Russian Duma that the government monopolize the foreign trade in grains in this manner: "Grain-Paper Currency" was to be issued against the deposits of grain brought to the elevators by the peasants. A corresponding advance was to be paid to them in this grain-paper. Primarily this arrangement was meant to relieve the peasants from the necessity of selling their grain when prices were low. But the State Institution was to go further; it was to keep special agents abroad and to have a well equipped Grain Intelligence Bureau. This Bureau was to follow the movements of grain in all the world markets and to execute sales on

94 HOW GERMANY DOES BUSINESS

the best conditions of time and place. The paper currency was to be redeemed with the proceeds obtained from sales and withdrawn from circulation, or it was to be kept for redemption as a sinking fund and the grain paper annihilated whenever the treasury or official State Institution should get hold of it.

This proposed law was never enacted. It is very probable that if private initiative is unable to promote the grading, standardizing and general improvement of merchandising methods, and to organize the sale of Russian raw materials, the Government will probably have to revive the grain project and analogous measures of syndicalization of Russia's chief export products, be it but for the sake of the regulation of Russian exchanges. In the lack of methods of standardization not only in merchandizing, but in manufacturing as well, as in other commercial activities, such as banking, credits, etc., lies perhaps the chief reason for many a handicap in international transactions. The absence of standards, more than any other reason, keeps the less

civilized countries from making progress and expanding in international commercial relations. The chief need is to elaborate standards. Importers must have a clear idea not only as to the standard type of goods when they give or eventually renew their orders, but also as to the standard time of delivery. They must, further, have standards as to the smallest technicalities, as for instance packing, charges, limit of time within which they may expect an answer to a letter, inquiry or order.

When such standards are elaborated, the buyer has an exact idea of his purchase and the seller of the exact desire and need of his customer. The Germans understood this thoroughly and therefore carried a great deal of foreign trade. For the nation where such standards were wanting, the Germans fulfilled an important function, that of a clearing house of standards. They had the trouble of sorting and therefore the benefit of standardization. They, however, went even further than an intermediary usually goes. German jobbers would contract in advance with certain

96 HOW GERMANY DOES BUSINESS

producers at a time of depression and low prices, corner the merchandise and put it on the market at a time of revival of business, thus very often competing with the producer himself. In some other instances they appropriated to themselves things which did not belong to them. About the time of the Chemical Exhibition in New York in 1916, I found in the *Journal of Commerce* an illustration of this fact. A certain chemical produced only in Russia was bought up by Germany and sold as a German product. The circumstance of war was necessary to show the world that the product is to be had only in Russia. This eloquently shows German power in organization and merchandising.

XIX

GERMANS AS FOREIGN INVESTORS

THE rôle played by Germans in international finance is very often disregarded. The volume of foreign securities on German bourses was only a trifle less than that on the French bourses, though France is the traditional home of foreign investments.

The statistics available are far from being exact. 1. Very often securities were offered in block simultaneously on different markets, and as each figure on the total number of shares it appeared as if the entire block had been absorbed by each individual market.

2. The securities could be bought by a French bank for the account of a foreign customer, or they could be bought first by a French bank and afterwards sold to foreigners.

So much for the factors which exaggerate the

98 HOW GERMANY DOES BUSINESS

statistics. On the other hand there are inflowing securities which are not recorded in the statistics.

3. Some securities are imported, but not listed on the stock exchange.

4. Other securities are bought by bankers in the course of their operations, as in combined arbitrage in securities and foreign bills. In France this is exemplified in the service organized by the "Société Centrale de Banques de Provinces" for selling imported securities to provincial banks. It is known that French investors bought a great number of British and Dutch rubber securities at treble prices during the very height of the boom in 1910. There are malicious tongues which assert that the French did not *buy* but the English *sold* to them. Such movements of securities elude statistics.

The same ambiguity exists in the statistics of every country. Therefore these data have a relative if not an absolute value, the errors counterbalancing each other.

In 1905, the value of foreign securities in Germany reached the sum of \$1,230,000,000 against

\$600,000,000 in France. In Germany's case, more than half the sum included loans to governments. In 1907, foreign securities in Germany amounted to \$1,750,000,000 against \$375,000,000 in France. That year, in Germany, the holdings consisted almost entirely of loans to foreign governments.

There is, however, a marked difference between French and German foreign investments. French investments are of a more stable character, the yearly average over the ten years ending in 1911 varying within narrower limits. The yearly average for ten years of French foreign investments was about 23% more than the German average for the same time:

\$625,000,000 in France.

\$510,000,000 in Germany.

At the same time, the yearly minimum of foreign securities held by France was two and one-half times larger than the yearly minimum held by Germany for the same period of time. That is very significant. In France, foreign investments, as in England, *are more a business in*

themselves, and of a far greater speculative character than in Germany.

It must not be forgotten that the statistics given show only what we shall call "visible investments." The *invisible* investments represent such capital as is invested within a country by foreigners, and which remains in the foreign country; for instance, a German enterprise in France whose securities do not leave France. Export of funds, i.e., foreign investments, must not necessarily take the form of imported foreign securities. The export of capital can take the form of export of factories:—goods, organization, and men combined. *This has been Germany's method of foreign investments since the beginning of the nineteenth century*, when, being a borrower herself, she exported capital, enterprise and brains to Austria, Russia and Italy, in the guise of capitalists who went abroad and organized industries there, such as mining, public works and factories. By this method, as early as 1879, the Russian cotton industry was created by Ludwig Knoop, a citizen of Bremen and travelling salesman for the Man-

UNIV. OF AS FOREIGN INVESTORS. 101.

chester firm "Jersey." As a rule, France and England used this method less frequently. It is true that many of these invisible German investments were made rather with capital acquired in the foreign country than with capital exported from Germany, since Germans were very seldom holders of bonds.

The big leaps from year to year in Germany's foreign investments, as indicated by the statistics, show that the amount of such securities moved in close interdependence with her own trade oscillations, at least so far as her visible investments are concerned.

If the invisible investments are taken into consideration, then the assertion that Germany invested only in her colonies, Austria, and to some extent in the Orient, is a very misleading one. As a matter of fact, as we shall see later, Germany played a conspicuous rôle in the so-called foreign industrial investments.

There are no statistics whatsoever as to these invisible foreign investments. It is, however, very probable that they are far beyond the \$500,-

102 HOW GERMANY DOES BUSINESS

ooo,ooo yearly average of foreign securities listed by the German stock exchanges. A rough idea of these German invisible investments in the allied countries could be obtained if the per capita wealth of the allied countries were multiplied by the number of German residents in the corresponding countries before the war. The native per capita wealth, however, is far below the per capita wealth of the Germans in the countries of the Allies, since they were chiefly engaged in business. Perhaps the magnitude of the Germans' invisible investments in the allied countries will some day be brought to light when the statistics of sequestered German interests in those countries are published. Even then, it will not be the whole truth, since liquidations, before and during the war, as well as some clever arrangements made by the Germans, in order to safeguard their capital, will conceal the true situation.

The rôle played by German banks in the development of Germany's foreign trade is well known. It is also known that German banks were the original creators of all kinds of indus-

trial, trade and finance associations whose goal was foreign business. As a matter of fact, German banks did not confine themselves to a few banking functions. They were saving and deposit institutions, trust and financial companies, they did general commercial banking and foreign exchange, and, finally, they were promoting and administrative companies. They specialized in a new function, the export of banks, viz., branches and, through them, in the export of industrial organizations, just as a railroad company finds it easier to work through a construction company. The German banks followed this logical reasoning: since we are called upon to use our funds to help industrial organizations, why can we not directly supervise and manage them? If we can entrust our money to them, we can entrust it to ourselves, and as financiers we see further and are perhaps better administrators than people to whom we loan money. That was the reasoning upon which they acted.

The directors of these banks were at once directors of an unlimited number of such organi-

zations. The banks also financed enterprises abroad: the Deutsche Bank together with the Dresdener Bank financed the Bagdad and Anatolian railways in Turkey and Asia Minor and the Deutsche Überseeische Electricitäts Gesellschaft largely built up Germany's colonial enterprises in Asia—cables, railroads, mines. The Disconto Gesellschaft undertook financing in mining, railway and like enterprises in South America. The Berliner Handelsgesellschaft financed the Allgemeine Electricitätsgesellschaft and all its branches abroad. Other enterprises, such as the Norddeutscher-Lloyd and the Hamburg-American Line, were called to life through the combined financing of different banks, partly through the lavish use of kite-fliers, drawn by one bank on the other, indefinitely renewed and sold in foreign countries.

The unrivalled mastery attained by the Germans in corporation finance in Europe is proverbial. It was shown in numerous ways; but it was perhaps most characteristic in the ability they displayed in surmounting legal difficulties imposed by some countries upon aliens owning joint stock

corporations, Russian Poland, for instance. With their remarkable organizing ability and power of psychological analysis, their readiness to corrupt, their permanent staff of promoters, engineers and financiers, there was hardly an obstacle which they could not reduce. If time was required, either to overcome barriers or to study the prospects of the business, an option was bought to forestall the purchase of the business by another. This is one reason why Germans lost a great deal of money when the war broke out, having contracted many options, especially in France.

In order to avoid legal friction, the German organizers invariably mobilized for chairmanships, retired generals, old fashioned politicians and other ornamental, influential people behind whom, as from behind a screen, they were the real, autocratic dictators of the companies. It is not true that Germans always assimilated the traditions of the country. They did that only when it was dictated by their business interests. In France they spoke French in their offices, but in other countries, like Russia, towards which Ger-

106 HOW GERMANY DOES BUSINESS

many manifested the deepest contempt, probably because Russia was the country mostly enslaved by Germany from the diplomatic to the industrial classes, they did not have to take the trouble of changing their language and habits. In the Russian office of a German concern, one might easily have imagined oneself in the business district of Berlin.

In Italy the number of German joint stock companies was so large that "there is not one corporation which is not under German control, directly, indirectly or at least partly." (Preziosi.) All the electrical industries in Italy and Switzerland were built up and remained in the possession of German banks, sometimes of Special Banks for Electrical Enterprises, as the Electro Bank in Zurich (Fr. 180,000,000), Bank für Electriche Unternehmungen in Zurich, a bank of similar nature and purpose. These banks were in their turn "linked" (this will be explained later) by the German banks and large industrial corporations, as the Deutsche Bank and the Allgemeine.

It will be asked by what methods the Germans

actually secured hold on so many foreign joint stock corporations. This will be answered in the chapters following.

XX

THE METHOD OF THE CHAIN

I HAVE already mentioned that Germans were masters in corporation finance, their only rivals perhaps being Americans. They were scientifically trained in it and the art of their work consisted chiefly in what Signor Prezioso in his "La Germania alla conquista dell'Italia" and in his "La Banca Commerciale" calls *Il Metodo della Catena*, which means "the method of the chain," thanks to which, with practically no capital, the Germans got controlling interests in the industries they desired. This is how the method operated.

The Germans furnished the nucleus. A promoting company was formed with a small capital. This capital could be procured in a number of ways, such as through German banks which were the more willing to assist because the capital so generously offered was not always German. Very

often a bank was exported to a foreign country and took up the functions of studying, financing, promoting the corporations, as in the case of electric works and enterprises in Italy and Switzerland. The company studied the scheme and its prospective profits thoroughly,—options were bought and taken up; after the company had been running for some time, it was capitalized on the basis of the estimated profits, in accordance with the normal security rates of the given security market. In order to procure the working capital, preferred stock, convertible bonds and sometimes even bonds were issued to the public. The common stock, representing chiefly the difference between the cost and the capitalization of the company, was taken up by the promoters who thus automatically and autocratically became the majority of the board of directors. In case the preferred stockholders had to be offered voting rights, the Germans did not fear the loss of their control, because they held the common stock. If common stock had to be offered to the public to raise more working capital, the Germans did not fear this

either, because they knew that in most cases the holders could not furnish a majority of directors capable in the sense of finance, industry, and business ability, nor did the non-German stockholders represent a compact body, united in their aims as the German holders were. By clever manoeuvres they could themselves favor the partial election of directors whose influence in the business was worthless. There were precautions they could take, such as to distribute the shares among small holders, or to sell them in remote towns.

The chairman was invariably well and favorably known in the community, perhaps an old Senator. The Germans never coveted honors; they left that to the people of the country where they traded. For themselves they kept the managing work and profits. As the European small investor does not, as a rule, attribute any value to his voting rights, the Germans by easy manipulation, secretly gathered these rights, and thus controlled, though they actually held but a small part of the stock. As we shall see later, they did this very frequently by a clever corporation finance device.

The liquid capital of a corporation, organized as above, could be invested in a number of ways. Using their influence, they invested these funds in a relatively big block of securities of a company in which they wished to have an interest or control. More securities could be issued by the first company if it was strong and well known, with the sole purpose of investment in such a corporation. By investing the proceeds more or less largely in the second company, they could acquire a relative majority and thus control this second company, because the absolute majority of stocks was spread among a number of small investors, who do not vote. The directors of the first German joint stock trade corporation, insurance company, bank, mine or industrial public service organization, etc., would, in this way, become the directors of the second, or the influential and leading working element in the board. Controlling the second corporation, they could strengthen the ties with the first corporation, making the second, in its turn, buy the securities of the first and so make them mutually linked and interdependent. Again, in

112 HOW GERMANY DOES BUSINESS

the same way as before, they could make the second corporation buy shares of a third company in which they would eventually get a new interest and control. The Germans were often satisfied with only an interest in a corporation, because when such an interest was once acquired they soon became the most active leaders, partly because of their compactness, discipline and uniformity of interest, partly because of their ability. Ability did not always mean good business management and sound financing. It meant frequently ostentatious "doctored" statements, capitalization of doubtful values, such as patents and plants, under "Sundry Assets." They did this because, to keep the control, they had to pay dividends at any cost and thus content the dumb stockholders who cared only for income. Again, it must not be assumed that they watered the capital under any conditions. When the shareholders were people of good financial education, or the corporation liable to big publicity, like an insurance company, the statements were sober and sound. In such in-

stances other manoeuvres were used. The Germans always did what they thought the particular class of people they depended on wanted them to do. That was a great business policy. By these and other means proper to corporation finance, as well as by the business management of the corporation, they were sure to become the efficient leaders of the corporation, though holding only a small interest.

By this "method of the chain," they would merge a corporation which they controlled with another one by a mutual exchange of securities and directors of the boards; they would induce one company to invest in securities of other companies, and link them so as to build up, with a nucleus of practically no money, a gradually enlarging net of corporations under their control. Then, as they became sure of their hold on a certain corporation, they could gradually sell out part of their securities, probably by this time advanced in price, and use the proceeds for investing in securities of new corporations. The German directors

114 HOW GERMANY DOES BUSINESS

knew that they could not be easily overthrown, because during their presence on the board, they put the business on a footing with which they alone were familiar.

XXI

COLLECTING THE VOTING RIGHTS

HOWEVER, a corporation did not always have sufficient liquid capital to invest in other corporation securities, nor could it always issue new securities with a view to using them for such an investment. But in order to acquire an interest or even a control in a new corporation, the investing of the corporation's own capital was not absolutely necessary. The voting rights of the majority of investors had no value in European countries, because the widely scattered investors cared only for their dividends; and as these rights were unused in the majority of cases, the Germans used ingenious strategy in *collecting them* and turning them to their advantage.

The idea seems very simple. Since the voter did not take advantage of his voting rights, these rights had no value for him. Therefore, if some

116 HOW GERMANY DOES BUSINESS

other security could be offered him which would have *identically the same value*, price and all other features proper to securities, such as safety, marketability, income, appreciation, etc., it could be exchanged for the securities he held in corporation A (as it will be henceforth called) and in which our corporation B wishes to get an interest. Then, should our corporation exchange the securities A for B, it will shift the voting right of the holder from the corporation A to the corporation B. Corporation B is our corporation and since these rights to vote were not used by the holders when in possession of securities A, they will not use them when holding the securities B for which they exchanged them. But in this way the corporation B acquired the securities A and an interest in this corporation. Theoretically it seems that such a conversion is of easy practice, but practically it is not so. It was not sufficient to offer in exchange a security absolutely identical to the security A which the investors held. An inducement had to be given such as to make the stock B superior in some points, and in none inferior, to

the stock A. Practically it could be done by offering a price for a voting proxy; the investor would thus remain in the possession of his security and get an additional income, or options on the capital stock could be bought with the right to take charge of the corporation under definite conditions. But that meant to open his eyes to the advantage of using his right to vote.

The Germans found other means for such an inducement. For instance, if corporation B was a large and very well known one, it could issue on the strength of the securities A, guaranteed stocks secured by the stocks A, dollar per dollar. It could issue on their strength preferred stocks, preferred cumulative, preferred with a guaranteed minimum of interest, or bonds convertible in shares, always secured by the stocks A. An additional amount of stocks could be issued, not with the purpose of offering them to the public, but in exchange for a certain amount of stocks of the corporation B, which would allow them mutually to exchange directors, the Germans being sure to become the leading element on the board. It

118 HOW GERMANY DOES BUSINESS

could use one of the many intermediate forms from stocks to bonds, or combinations of them and put on the market such securities as were warranted by the condition of the security and money market and do it at a suitable time; for instance, during a crisis, when dividends are passed and the investor's faith in his securities is shaken. As the very reason of their eagerness to become interested in the corporation A implied that their intervention would increase the income of that corporation, the Germans naturally could afford to offer some substantial inducement to the holders of the securities A, if this were necessary. Sometimes, when the company A was a small one, it was sufficient for the corporation B to act as holding corporation, issuing shares on the strength of and for the amount of the stock it held, thus vaguely guaranteeing them, which did not necessarily mean that it exchanged a less good credit for a better secured one, but one less known for a better known one—its own. If, in order to carry out this conversion, money was temporarily needed, a finance bill, drawn on a "linked" acceptance house in

London or Paris was used. It happened that these manoeuvres were sometimes disclosed, as in the case of the mine industry in France, the Russian cotton and electro-technic industry; but the Germans' power had already gone so far that a fight with them was impossible. Thus Knoop, the small salesman of the firm "Jersey," became in Russia the commanding king of one hundred and twenty-two cotton mills.

To be sure, the shareholders profited also by the Germans' policy. The Germans knew that if this were not so their success would be temporary. But the flow of profits went into the pockets of the Germans, who were managers of a new work of "chain corporations" and fixed their salaries themselves. Naturally, as holders of common stock, they harvested all the fruits of the successful corporations created by them.

The "chain policy," backed by the policy of dumping, went beyond a given state and was worked out in many countries, with a view to controlling certain special industrial lines all over the world, as the chemical industry, for instance. It

120 HOW GERMANY DOES BUSINESS

is said that the Banque de Paris et Pays-Bas in France, the largest "banque d'affaires," as it is called there, and the Banca Commerciale in Rome had their chain beginning in Germany and ending in the United States. That was the German idea of "geographical distribution."

XXII

ELIMINATION OF WASTE

COLLECTING THE WORLD'S ENERGY

I HAVE already mentioned that the Germans' chief reliance was on research, since their genius knew very little of inspiration and real inventiveness. On the contrary, it was the country of application, assiduity, and thoroughness. In the course of their tremendous self-growth they became aware of the disorganizing, conflicting contradictions of our social life which result in waste of every kind. The reason for this waste lies in the fact that a million wills are freely directed towards different vaguely determined ends, and the resultant force of these conflicting cross-purposes is what determines our social régime.

This waste is to be seen in all the activities of our life, in the mills and in the schools, in our science as well as in our religion, in our family

122 HOW GERMANY DOES BUSINESS

as in our every-day life. It is in the thousands of magazines and newspapers repeating the same things; in our book market where innumerable books are written upon the same problem, some being absolutely unnecessary after the appearance of better books and some little more than copies of what was better presented before. It is because there is still too little organization of any of our activities, because we know only vaguely of the existence of material gathered, and because there is no controlling force whatsoever in our life now as were the censors of the middle ages, when the fund of information was small.

It is easy to understand that the correction of this waste should begin in the economic field. In business, in the factory, it means a saving of money. The business interpretation of energy is money. It is there that it was first discovered because there every-day arguments for competition are sought. Time and motion studies mean a paying argument in the hands of a manufacturer. Once this is begun, it will naturally continue and spread to all of our activities.

In education, for instance, where inefficiency is so flagrant, there is not so much incentive for the elimination of waste because all members of society are affected equally and the evil is thus neutralized. But there are indications of change, now that necessity has created opportunities for specialized training which yields quicker and more efficient results than the wasteful method of traditional education produced. This tendency is pregnant with possibilities.

In Germany the movement toward efficiency was not limited to such appliances as those used in the iron furnaces to catch gases and use them for driving the engines of the steel mills, or to utilize the smoke for making tar, etc. It extended to coördinating the forces of industry in an organization known as the "Cartel," to the "syndicalization" of labor, etc. It was applied to special bureaus of information of every kind, such as the Bureau of Information for Vocational Employment where a man's capabilities, disposition, and material means were investigated with a view to advising him in detail as to a suitable

124 HOW GERMANY DOES BUSINESS

career, its requirements in time, money and study and its possible returns. Every cultured German has his daily programme as to when and how to do everything, the smallest detail having its proper place. It is said that the president of a great corporation, during an important talk with a large buyer, heard the clock striking twelve and said to his guest, "Now, mein Herr, we must interrupt the conversation and we will go to have dinner together. It is the time."

The beneficial results of these efficiency methods showed themselves in many ways. Although Germany has fifty less blast furnaces than England, Germany in 1907 produced 2,000,000 more tons of pig iron, thanks to her system of distributing labor, her coördination of industries, and her mechanical improvements. And yet it was not long ago that iron industries in Germany were conducted by English mechanics and engineers.

The first apostle of the movement of efficiency was Ostwald; he launched the now famous appeal: "Do not waste energy. Make it valuable." To him all sciences were pseudo sciences

unless they included the art of bettering humanity. Ostwald created a special bureau in Munich called "Die Brücke," an office for elaborating efficient standards to facilitate the "technic and work of scholars." He opened our eyes to many other wastes. Germans were captivated with him. This movement was followed by some typical discipline which, as always, was characteristic of that people among whom some martyrs ended in an insane asylum. It became a religion. What they did in social life was paralleled in their business. Their aims were clearly set forth, and the research department applied itself to working out the smallest details. Research along all lines was made; actual experience on special subjects was accumulated in special records of the factory, and new adaptations were turned to use. Rewards were paid to workmen who suggested profitable changes.

Another thing to be remembered is that Germans put into practice what in other people remained but vague ideas and words. A number of people may know and speak of the same things,

126 HOW GERMANY DOES BUSINESS

and yet none may think to carry the ideas into effect. This is daily apparent in small things. But then comes one with the motor nerves strongly developed and the thing about which we all know assumes form. He is the only one who had complete faith in his idea, the others were "poets of words." The Germans did not talk efficiency and system, they did them. Not only did they study what commercial use could be made of the by-products of an industry,—the coke industry, for example,—and how to extract these, but they inaugurated research organizations for special purposes. When the problem of electrification of railroads arose a special research study committee was created. A study body preceded the incorporation of any important industrial society. This was not exclusively a German idea for it is the rule in America to appoint a study commission before any big investment is made. It is not, however, commonly employed here in promoting small enterprises. The Germans methodically used their argument of studies. The same spectacled "doctors" who won the war of 1871 won

the economic war ended in 1914. This they did the more easily because they were the only ones in arms, while their enemies, deep in slumber, were not even aware of the existence of an economic war.

XXIII

GERMAN INTERNATIONAL POLICY IN FOREIGN TRADE

GERMAN international policy could be characterized as a union of bankers, professors, manufacturers, the Foreign Minister and the State itself. It was a union formed on a purely business basis and business methods were the underlying logic of the international policy. No other nation than the German nation so clearly and definitely set up its business purposes and business methods, because no other nation could unite the different contradictory wills of its members so efficiently. The reason for this lies primarily in the German character accustomed to discipline and obedience, and, again, in the continuous success of this nation—success kills every revolutionary tendency. That is why the orders elaborated and sent from above were so diligently and emphatically executed by

the people. Other nations were undoubtedly eager to develop,—that is the *raison d'être* of any nation,—but the ways and means employed by them to bring about this development were confided to politicians rather than to experts, viz., scholars and business men. The Germans looked for the practical benefit-bearing side of a science, for science applied. Long before Ostwald wanted to make a business of science the Germans had already made a science of business. German international policy was an international enterprise, a business enterprise conducted on a scientific (science means logical study) basis under the benevolent auspices of the imperial government.

This assistance given by the State to German concerns in their foreign trade enterprises applied to little as well as big things. It was effected through diplomacy and through minor factors. Long ago all the world wondered how Germany could import gold when her rates of exchange almost reached the gold export point. It appeared as if German bankers were conducting ruinous financial transactions. In fact, to import at gold

130 HOW GERMANY DOES BUSINESS

export rates means to pay for gold with a short term promise to reimburse with more gold the amount of the finance bills with which Germany paid for the importation of gold, inasmuch as Germany pretended to be on a gold basis. As the bankers could not do business at ruinous rates, it stands to reason that this condition was due to influence from "higher up."

As a matter of fact it is known that the Reichsbank offered to bankers and importers of gold some material advantages, such as advances of money without interest until the arrival of the gold in Germany. This was done partly because Germany was always in need of gold, it being the basis of all credit systems. As Germany's credit manufacturing necessities grew more quickly than those of any other country, as is reflected in the growth of her banking, she was badly in need of gold—gold hungry all the time. The Reichsbank, as well as other large banks, in expectation of an increase in their gold reserves from the prospective gold importations could allow their deposit accounts to swell and thus increase their

loaning capacity together with their earning capacity. They could, in anticipation of increased prospective profits, abandon part of them and import gold at a time when an individual banker would find it more advantageous to export it were he allowed to do so by those "higher up," who controlled the situation.

It is unnecessary to mention the innumerable German export *Vereine*—export association—which covered the country. No other country had such a voluminous literature on exporting as Germany. The intimate touch of intelligent consuls and merchants is another thing from which German business men derived advantage. Before leaving for a foreign country a merchant would get personal letters of introduction from the Chamber of Commerce to the German consuls abroad. The consul would receive him warmly and facilitate his work in every way possible.

The Cartel is another feature of Germany's international policy in foreign trade. Cartels are syndicates embracing almost every branch of manufacturing. These Cartel-corporations were

132 HOW GERMANY DOES BUSINESS

organized sometimes for the general purpose of mutual information as to conditions in the foreign countries, methods of merchandising, credits, etc. Sometimes they were organized for the regulation of prices at which certain products were to be sold in foreign countries; sometimes not only to fix uniform prices but also to regulate the quantities to be sold abroad. Every member would be allotted a certain volume of business to be done and sometimes a certain territory. None of these cartels, however, ever pooled their capital as does the real American trust.

Another feature is the well known "dumping" as practiced by the coal, steel, paper, sugar, and spirits syndicates. The purpose of such syndicates was to undermine a similar industry in a country where they would dump such merchandise in order to take hold of the industry thereafter. In selling its products abroad at prices considerably below the cost price, the syndicate had to reimburse itself by demanding higher prices within Germany. It may safely be inferred that they needed a benevolent government's help and

its toleration of syndicates and the higher prices at which they sold goods to German consumers. It was, moreover, the government which protected them by prohibitive tariff duties, without which they could not sell goods to the home consumer at the highest prices. In recent years the cartel policy was not only tolerated, but favored and encouraged by the German government, in fear of foreign competition. Often, however, this dumping proved unsuccessful. Besides it always meant a natural inflation of prices, the dissatisfaction of the working classes, and frequently ruin to the capitalists who were responsible for giving part of the nation's capital abroad gratis and in a speculative effort.

There is a fatality about the trust movements all over the world. It will not be out of place to recall that in France, just about the time the war began, a movement emulating the German cartel was started and a syndicate of *couturiers* (dress and fashion makers) was created. It could not, however, survive even the period of the war, being dissolved after less than a year of existence.

134 HOW GERMANY DOES BUSINESS

Another feature of Germany's international trade policy was the *Getreide-Identitäten und Einfuhrscheine*. Originally they were like American drawbacks but very soon they were received in payment of importation duties. Their history is as follows:

An importer of grain was allowed to export a quantity equal to that which he imported. When he exported he received an "Einfuhrschein" with which he afterwards could import a corresponding quantity of grain without paying any duty. Later these receipts became negotiable and a market was created for them because they were acceptable not only in payment of duties on the importation of grain but for any other importation. Thus they represented a real *general premium on exports*.

Premiums on export were also paid by dumping syndicates through premium paying clearing houses especially established for this purpose. These premiums were paid by dumping syndicates of raw materials to exporters of products manufactured from syndicalized raw ma-

terials. The premium was the difference in price between the raw material consumed in Germany and abroad respectively.

The dumping policy was obviously contradictory to the free trade economic school which takes for granted that no manufacturer will sell his goods below the cost of production. In reality, however, in the course of the capitalistic development it became evident that it is more advantageous to sell at a loss for some time than to cease production and not to sell at all.

The manufacturer usually reimburses himself for his loss by increasing prices when times are better. His policy is thus based on expectations and is a speculation in time. The "dumper" brought to life a new kind of speculation, *a speculation in place*. He sells cheaply in one place (abroad) because he believes he will get better prices at another place—i.e., within his own country.

The dumping policy necessarily led to some very flagrant contradiction. For instance, if coal was dumped abroad and sold, let us say at \$5.00

136 HOW GERMANY DOES BUSINESS

per ton, while the cost of production and selling was \$5.50, and if the quantity of tons exported is equal to the amount consumed within the nation, the coal cartel will fix the domestic price roughly as follows:

\$5.50 cost of production, plus 50c loss on every ton exported, plus 20% on the price of production of two tons (\$11.00) \$2.20 equals \$8.20. The difference between the domestic and the export price is \$3.20.

Now, if a manufacturer exports steel plates, naturally he exports, in converted form, pig iron, coal and other materials that enter into the production of such plates. If he were required to pay \$3.20 per ton more than his foreign competitors to whom the Cartel sold coal, his competing place on the International Market would be unfavorably affected. Here comes the Clearing House which pays back the difference between the two prices, in this case \$3.20, on every ton of coal utilized in the production of plates exported.

Standards were established as to the number of

tons of coal needed for the production of manufactured articles, tubes, wire, castings, etc.

The exporter had but to present the duplicate bill of lading with specifications as to the kind and class of products exported, to enable the Cartel to calculate the amount of coal consumed and the amount of money to be returned. Although actually the exporter never received the entire difference between the domestic and dumping prices, and the calculations were not as simple as in this example, it is on these principles that the clearings between the Cartels and the exporter were based.¹

Favoritism in the matter of railroad rates is another feature of Germany's trade policy. In order to counterbalance tariff duties of a certain foreign country on a certain article, or in order to have the exports of a neighboring country pass through Germany where profit in brokerage, ship-

¹ A good treatise on Cartels is the recently published pamphlet, "Commercial Organizations in Germany," by A. J. Wolfe (Special Agents Series No. 78; Washington, Department of Commerce).

138 HOW GERMANY DOES BUSINESS

ping, etc., would be asked, special railway tariffs were created. Thus Russian exports were shipped to the Baltic through Germany and from there on in German ships. It is partly due to these differential railroad tariffs that some articles were offered cheaper in a foreign country than in Germany.

To change rules to meet trade conditions was exceptionally easy and a quickly realizable law for the Germans. Take the adoption of differential freight tariffs. It was much easier to secure these because of the fact that the railroads belonged to the state which was always anxious to lend intelligent aid when foreign trade was concerned. And it is worth mentioning that, in spite of such sacrifices, the German railroads were the only ones on the European continent which, though belonging to the state, returned profits in excess of fixed charges.

That the German chamber of commerce and the commercial attaches and the German consular service were important and productive factors in foreign trade policy is a thing now commonly

known. It was the Chamber of Commerce which strongly urged among German manufacturers the idea of being in close touch with foreign customers through special representatives. A big engineering concern in Prussia maintained one hundred offices, and what the Germans call "special representatives," in different European countries. The same was done by electrical, chemical and other industries.

Other features of Germany's foreign policy were her universally known fairs and famous special exhibitions which attracted people from all over the world, and thus were a strong support in her international policy. These special exhibitions were made for a single specialty, as for steel and iron products, automobiles, toys, chemicals. In 1905 such an exhibition of ideal municipal government was held in Dresden and was visited by municipal delegates from all over Europe. While maintaining these exhibitions at home the Germans did not fail to take an active part in important exhibitions elsewhere in the world. A special national committee for foreign exhibitions existed

140 HOW GERMANY DOES BUSINESS

with the sole purpose of investigating with the help of the government, international exhibitions, in which Germans might advantageously participate.

Among other special exhibitions held in Germany for the last fifteen years were:

Glass Painting,	Karlsruhe,	1901
Lithographs,	Leipzig,	1901
Applied Art,	Dresden,	1901
First Industry and Trade Exhibition,	Düsseldorf,	1902
Agricultural Shows,	Cologne,	1904
Hygiene Milk Supply,	Hamburg,	1904
Horticultural Exhibition,	Düsseldorf,	1905
Automobile and Bicycle,	Frankfort,	1905
Handicraft Work and Fine Art,	Nürnberg,	1906
Photography,	Munich,	1907
Life and Work of City of Munich,	"	1908
The German Brewery,	"	1909
Aëronautics,	Cologne,	1909
Gas and Water,	"	1911
Electrical Appliances,	Munich,	1911
Hygiene,	Dresden,	1911
Bavarian Arts and Crafts,	Munich,	1912
Aëronautics,	Berlin,	1912
Construction,	Leipzig,	1913
The Book and Graphic Arts,	"	1914
and, just before the war, the famous "Deutscher Werk Bund," the exhibition of distinctively German expressions in all industries and crafts;	Cologne,	1914

The "Central Information Agency for Foreign

Trade," which was created and maintained by German manufacturers, was a powerful expert institution. It was divided into many departments, such as custom tariff department, banking, patents, transportation and traffic, and international legislation.

A proposed agency was a semi-official German organization for influencing the foreign press. In this the foreign ministry, the Deutsche Bank, the steamship companies and the large export houses coöperated with the Wolff Press Bureau. About to be organized in 1914, it would have become a powerful means of propaganda. The various concerns were invited to subscribe to this proposed corporation an amount equivalent to their respective foreign advertising expenses. Half of the capital stock was about to be subscribed by the state, which was to give to the organization a monopoly of foreign cable and other information. It was to be a syndicate which should organize and render efficient the advertising energies of German concerns. The war killed this project at its very birth.

142 HOW GERMANY DOES BUSINESS

Finally, a distinctly German creation was the Commercial Association of Stettin, the purpose of which was to provide funds to young men desirous of going abroad to study commercial conditions. Funds were advanced to young men who gave a solemn promise that they would use all their knowledge and would try to get as much information as they could for promoting the trade of Stettin.

These are only a few little details of the great structure which comprise German international trade policy.

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